

Chapter 100 - Introduction to the State and Local Coverage Handbook

Subchapter 01 - Introduction

10001.101 Purpose of SLCH

The *State and Local Coverage Handbook* (SLCH) is used by State Social Security Administrators and Social Security's regional and parallel office (PSSO) staffs to administer the Social Security and Medicare coverage provisions under [Sections 218](#) and [210](#) of the Social Security Act (Act).

The SLCH does not amend or supersede existing laws and regulations and should not be used or cited as authority for technical matters. If the content of the SLCH conflicts with the Act, another relevant statute, Social Security regulations or rulings; those authorities have priority over the SLCH.

The Social Security and Medicare coverage provisions for State and local government employees are complex and unique. To administer the coverage provisions for State and local government employees requires the knowledge and understanding of Section 218 Agreements, the mandatory Social Security and Medicare coverage provisions, State laws and how all these interrelate to provide Social Security and Medicare coverage for public employees.

Social Security's regulations require States to designate a State official to act on the State's behalf in administering the State's Section 218 Agreement. There is no comparable requirement in administering the mandatory Social Security and Medicare coverage provisions under Section 210. Therefore, it is important for States to understand how the Section 218 and 210 coverage provisions interrelate.

The SLCH was originally a paper publication that existed separately from the rest of the Social Security's operations manuals and included the necessary information and materials needed to carry out the Social Security and Medicare coverage provisions for State and local government employees.

In keeping with its ongoing paper reduction program as well as utilizing a format that would easily permit continual procedural and editorial changes, Social Security decided that the SLCH would be made an online publication; and the best way to accomplish this was to integrate the SLCH into Social Security's online *Program Operations Manual System*. As of its December 2003 online publication, the online SLCH became the version of record,

obsoleting previous paper editions, and the only version that will have procedural updates.

10001.110 Maintaining the SLCH

The SSA Office of Income Security Programs (OISP) is responsible for maintaining the SLCH. The SLCH can be accessed and downloaded from the SSA web site under the heading, *Employee Operating Instruction*, at <http://www.ssa.gov/regulations/index.htm>. Updates and revisions to the SLCH will be posted electronically to the SSA web site.

10001.120 SSA-IRS Federal Responsibilities

A. Social Security Administration (SSA)

SSA is responsible for the Social Security and Medicare coverage provisions under the Act. Under the authority of the Act, SSA:

- Administers the Social Security and Medicare coverage provisions for State and local government employees under Sections 210 and 218;
- Makes rules and regulations and establishes procedures, not inconsistent with Title II of the Act (42 U.S.C. 401 et. seq.), which are necessary or appropriate to carry out certain provisions of the Act;
- Adopts reasonable and proper rules and regulations to regulate and provide for the nature and extent of the proofs and evidence and the method of taking and furnishing the same in order to establish the right to benefits under the Act;
- Determines the coverage status of State and local government employees covered under a State's Section 218 agreement and modifications thereof, and the mandatory coverage provisions under Section 210 of the Act, for Social Security and Medicare benefit purposes;
- Interprets, executes and maintains Section 218 agreements and modifications to such agreements;
- Assures the accurate crediting of earnings to all workers; maintains accurate earnings records; verifies the earnings amounts provided; and corrects erroneously posted amounts, as required by law;
- Permanently maintains physical custody of the States' Section 218 Agreements, modifications, and dissolutions; and
- Permanently maintains physical custody of correspondence if it relates to the content of an agreement or modification (extent of coverage, deletions, corrections, dissolutions, etc.), a question or clarification involving the coverage extended by an agreement or modification, or any other coverage matter, or changes in the names of state and local entities.

B. Internal Revenue Service (IRS)

IRS is responsible for the Social Security and Medicare taxation provisions under the Internal Revenue Code (IRC). Under the authority of Chapter 21 of the IRC, IRS:

- Administers the Federal Insurance Contributions Act (FICA), including the mandatory Social Security and Medicare provisions concerning services performed by State and local government employees;
- Assures proper reporting and collection of Social Security and Medicare taxes by State and local government employers under the FICA through examination and other compliance programs; and
- Interprets the FICA provisions applicable to State and local governments through published guidance, e.g., regulations, revenue rulings, revenue procedures, private letter rulings and field directives.

10001.130 State Social Security Administrator Responsibilities

SSA regulation [20 C.F.R. §404.1204](#) requires each State to designate at least one State official to act for the State in administering that State's Section 218 agreement. This official, the State Social Security Administrator, acts for the State with respect to its responsibilities for maintaining and administering the provisions of the agreement and the proper application of Social Security and Medicare. Therefore, it is important for state administrators to understand how the Social Security and Medicare coverage provisions interrelate.

A. Introduction to State Social Security Administrators

When the Social Security Act (the Act) was enacted in 1935, Social Security coverage was limited to private sector employees. States, their political subdivisions, and interstate instrumentalities, were not originally included in this legislation. However, with the Social Security Amendments of 1950, Congress created Section 218 of the Act (codified at 42 U.S.C. §418). Effective January 1, 1951, Social Security coverage became available to State and local government employees through a unique Federal-State agreement authorized by Section 218. These agreements, referred to as Section 218 Agreements, represent a mutual commitment to assure that participation in the Social Security program is a viable part of employee benefit programs available to public employees. Today, every State, Puerto Rico, the Virgin Islands, as well as numerous interstate instrumentalities, have a Section 218 Agreement with SSA. This is equivalent to providing Social Security and Medicare or Medicare-only coverage to approximately 22 million employees.

In order to effectively implement coverage at the State level, SSA, through regulation [20 C.F.R. §404.1204](#), requires that each State designate a State Social Security Administrator to act on the State's behalf with respect to its

responsibilities for maintaining and administering the provisions of the Agreement. The role of a state administrator is challenging, but through a cooperative relationship with SSA, the Internal Revenue Service (IRS), and the National Conference of State Social Security Administrators (NCSSSA)—every state administrator, both experienced and inexperienced, is guaranteed access to a network of knowledge and resources.

B. Responsibilities of State Social Security Administrators

SSA regulations require that each State designate a state administrator, to act on the State's behalf with respect to its responsibilities for maintaining and administering the provisions of the Section 218 Agreement.

1. Administer Section 218 coverage

The state administrator is responsible for administering all aspects of Section 218 coverage, including interpreting its provisions, and insuring proper application of Social Security coverage to all State and political subdivision employees. The basic responsibilities of the state administrator are to:

- a. Permanently maintain physical custody of the following documents:
 - Section 218 Agreements,
 - modifications,
 - dissolutions,
 - intrastate agreements,
 - ballots from referenda and,
 - prior letters and other forms of correspondence between the entities and the State, SSA, and IRS, which could affect future coverage;
- b. Determine which State and political subdivision employees' positions are covered by approved Section 218 Agreements and modifications;
- c. Work with employers to guarantee proper Social Security and Medicare withholding and reporting;
- d. Take appropriate steps with respect to the execution of modifications to the original agreement to include additional coverage groups, correct errors in coverage, or identify additional political subdivisions that join a covered retirement system;
- e. Conduct referenda on the coverage of services of individuals in positions under a retirement system;
- f. Identify new, inactive, merged or dissolved political subdivisions, and take the appropriate coverage related action;
- g. Provide SSA with notice and evidence of the legal dissolution of covered State or political subdivision entities;
- h. Provide guidance to government employers on issues related to Section 218 coverage;

- i. Work with SSA and the IRS to address coverage and taxation questions related to the Agreement and any modifications; and
- j. Serve as an intermediary for federal, State and local agencies, and educate public employers on coverage and benefit issues.

2. Notify SSA about any state administrator changes

SSA regulations require each State to inform SSA of the name, title, and address of the designated official(s) and the extent of each official's authority. When there are changes in designated officials or changes in their authority, the State should inform SSA timely. States should send a notice to the following SSA offices:

- SSA regional office serving the state
- SSA parallel Social Security office (generally located in the State's capitol city)
- Office of Income Security Programs

Office of Earnings, Enumeration and Medicare Policy

2-P-19, #213

2400 Robert M. Ball Building

6401 Security Boulevard

Baltimore, MD 21235-6401

3. Communicate with SSA, IRS, employers, and stakeholders

Communication is essential to performing the roles and responsibilities of the state administrator. However, to be effective, communication must flow clearly and consistently with all involved parties. This requires that communication and interaction exist between the state administrator and every entity—from SSA, to the IRS, to every reporting official for the State and its political subdivisions. Consider the following points for developing and maintaining an effective communications plan. State administrators should contact:

- Other [State Social Security Administrators](#) through the NCSSSA as needed and annually at the NCSSSA conference;
- [SSA parallel Social Security offices](#) as needed, but at least quarterly to foster open dialogue;
- [SSA regional](#) and national offices as needed, but at least quarterly to foster open dialogue;
- [IRS Federal, State and Local Governments](#) as needed, but at least quarterly to foster open dialogue;
- State's respective political subdivisions (including those that do not have Section 218 coverage agreements) at least once annually to secure current contact and mailing information including: current legal status, possible

subdivision name changes, address changes, telephone and fax numbers, email address, and EIN(s);

- State government legislators and policy makers;
- Public retirement systems; and
- Oversight agencies, public employer associations, and other professional governmental associations as needed.

4. Maintain Section 218 related records

It is the responsibility of the state administrator to maintain Section 218 records permanently and securely. Destruction of original records is not authorized. In order to meet the records retention requirements, the state administrator shall:

- Maintain the State's original hardcopy file of all Section 218 related coverage information, including the State's Section 218 Agreement, modifications, dissolutions, intrastate agreements, and all associated correspondence in a secure environment that should be both waterproof and fireproof;
- Consider implementing a redundant system to backup hardcopy files (example, an electronic database of scanned files);
- Routinely back up electronic files, and the backup files should be stored in a separate and secure location away from the originals; and
- Routinely evaluate electronic and hardcopy files to insure the integrity of the documents.

5. Perform education and outreach

The state administrator is responsible for providing regular education and outreach to State and political subdivision employers and employees. A successful education and outreach program implements all, or a combination of the following strategies:

- Identify State and political subdivision employers, and create employer profiles that can be easily accessed as a source of information;
- Organize, conduct or participate in joint educational outreach with SSA and IRS for the State's governmental employers and employees;
- Identify political subdivisions not covered by a Section 218 Agreement that provides retirement system coverage to their employees to ensure the subdivision understands their obligations and responsibility under mandatory Social Security or mandatory Medicare laws and provisions;
- Send periodic letters to State and political subdivision entities asking if their Social Security coverage and retirement system status has changed;
- Provide information (via newsletters, articles and presentations) to the State's political subdivisions concerning requirements of Section 218;
- Develop email or website material for on-line client information exchange;

- Network with governmental and professional associations, participate in conference committees, and offer to coordinate conference presentations;
- Compile a State-specific coverage and reporting manual for use by the State's public employers;
- Develop ongoing contact and act as a liaison with the State's congressional delegation, legislative, and executive branch officials and staff; and
- Monitor for State and local proposed legislation that could potentially affect the Social Security, Medicare, and retirement system coverage of government employees.

6. Determine necessary funding

The state administrator is responsible for determining the level of support needed by its State and covered political subdivisions, pursuant to existing State statutes, and ascertaining the administrative costs for operating the Section 218 coverage program. The state administrator should make recommendations to the appropriate State authorities to ensure adequate funds are made available to properly administer the state administrator's program in that State.

7. Determine necessary staffing

The state administrator is responsible for evaluating and maintaining staffing levels commensurate with Section 218 program objectives and activities. Remember, the state administrator position, as well as the duties and responsibilities associated with the position, are a mandatory responsibility of the State—as specified in SSA Regulations at 20 CFR § 404.1024. In order to determine the adequate staffing level for the state administrator position, the State should perform an analysis of the coverage needs of the State and its political subdivisions. Consider the following:

- Identify goals and objectives that align with the roles and responsibilities of the state administrator position;
- Identify the State's political subdivisions (including those that do not have Section 218 coverage) and begin developing specifications for the type, numbers and locations of employees;
- Assess the current and the projected coverage needs of the State and political subdivision employees;
- Identify the possible methods for meeting the coverage needs of State and political subdivision employees;
- Determine the staffing requirements necessary to implement the ideas identified;
- Develop a method or mechanism for rating the effectiveness of staff and then monitor the effectiveness of current staffing levels; and
- Staff the position to effectively and efficiently meet the Social Security coverage needs of State and political subdivision employees.

In addition to effectively maintaining current staffing levels, the state administrator should implement a comprehensive succession plan. Succession planning is the mitigating process of preparing for the loss of critical personnel in an organization. When initiating development of a succession plan, begin with basics, and know the risks. We suggest performing an assessment and identifying and logging what positions have the highest potential risks for a vacancy—and the impact that it could have on administering Section 218 coverage for the State and its political subdivisions.

8. Understand legal framework

It is important that state administrators know how to apply Federal or State law when making a determination on coverage issues. As a rule, Federal law governs determinations involving coverage of State and local government employees, while state administrators determine issues involving the interpretation of functions of the State and its political subdivisions according to State law.

The following chart identifies issues that require determinations on the basis of Federal and State law.

Federal Law	Does an employer or employee relationship exist?
	What is the identity of the employer?
	Are earnings reported as Social Security wages?
	What are emergency services?
	What are student services?
State Law	Who is an officer of a State or political subdivision?
	Is an entity a political subdivision?
	What is the legal status of a new entity?
	Is a function governmental or proprietary?
	Is a position under a retirement system?
	Which employees are eligible for membership in a retirement system?
	Who is an employee for purposes of retirement system participation?
What is the definition of a police officer or firefighter position?	

If it is unclear whether an issue requires a Federal or State determination, consider contacting the State’s PSSO, or the appropriate Social Security regional office. If additional guidance is needed, consider obtaining the necessary legal opinions and guidance from the State’s Office of the Attorney General.

9. Program strategies

The state administrator should develop a comprehensive program strategy for addressing the State's Section 218 program goals. Consider the following points for implementing a strategy:

- Standardize and simplify Section 218 services;
- Develop performance standards based on State and local government needs;
- Apply technology to aggressively automate routine tasks, data maintenance, and client interface;
- Create a task group to identify the Social Security needs of State and local government employees;
- Develop an outreach strategy for participating in public events, and provide training and dissemination of Social Security coverage materials for State and local employers and employees; and
- Facilitate support for your Section 218 program from State legislators and executives.

C. Resources for administering Section 218 policies

The primary resource for administering Section 218 policies is the [State and Local Coverage Handbook \(SLCH\)](#). The SLCH is located in the SL part of the Program Operations Manual System (POMS). In addition to the SLCH, the State administrator should routinely use the following resources.

1. Agency and organization web sites

SSA, State and Local Government Employers (SLGE)	This SSA site is specifically for Social Security coverage issues related to State and local government employers and employees. You can find information about how public employees are covered for Social Security and Medicare, frequently asked questions, laws and regulations, publications, who to contact in your State, and related web links that can help you understand the Social Security and Medicare coverage and reporting requirements for public employees.
National Conference of State Social Security Administrators	Since its formation in 1952, the NCSSSA has worked closely with SSA and IRS to address Social Security and Medicare coverage and employment tax issues raised by

	State and local government employers and State Social Security Administrators throughout the United States. The NCSSSA works with federal officials to ensure legislative and regulatory changes address State and local concerns, and the NCSSSA provides leadership to State and local governments.
IRS, Federal, State and Local Governments (FSLG)	This IRS site is for Federal, State and Local Governments (FSLG), as a source of information for ensuring compliance with federal employment tax laws by governmental entities.

2. Legal citations

Section 218 of the Social Security Act	The portion of the Act that explains that the Commissioner of Social Security shall, at the request of any State, enter into an agreement with such State for the purpose of extending the insurance system established by this title to services performed by individuals as employees of such State or any political subdivision thereof.
Section 210 of the Social Security Act	The portion of the Act that defines employment.
Section 3101 of the Internal Revenue Code	The portion of the IRC that relates to the way that employment taxes are imposed.
Section 3121 of the Internal Revenue Code	The portion of the IRC that relates to what types of remuneration constitute wages.

3. Publications

SSA, State and Local Coverage Handbook (SLCH)	A policy and reference manual developed by SSA for state administrators to use in administering the Social Security and Medicare provisions under Sections 210 and 218 of the Act.
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IRS, Publication 963: Federal-State Reference Guide (Pub. 963)	The IRS Federal-State Reference Guide provides State and local government employers a comprehensive reference source for guidance on Social Security and Medicare coverage and FICA tax withholding issues.
NCSSSA Handbook	A guide developed by the National Conference of State Social Security Administrators for new state administrators.

4. Fact sheets

SSA Publication No. 05-10007	Government Pension Offset (GPO)
SSA Publication No. 05-10045	Windfall Elimination Provision (WEP)
SSA Publication No. 05-10051	How State and local government employees are covered by Social Security and Medicare

5. Miscellaneous

SSA, News and Announcements	An electronic bulletin board of Social Security related news, events, and announcements.
IRS, Federal, State, and Local Government Newsletter	A semiannual IRS publication about current developments and upcoming events of interest for government entities.

10001.140 SSA Program Administration

SSA program responsibilities for the Section 218 State and local coverage provisions are divided among several SSA components. The following describe those components and their functions.

A. PARALLEL SOCIAL SECURITY OFFICE (PSSO)

The PSSO, usually located in the state capital, is the on-site SSA representative to the State under the leadership of the Regional Commissioner. The PSSO:

- Conducts day-to-day negotiations with the State;
- Assists the State in drafting Section 218 Agreements and modifications;

- Reviews agreements and modifications from the State for technical accuracy and appropriate documentation before forwarding to the Regional Office; and
- Makes coverage and wage determinations, where appropriate.

B. REGIONAL OFFICE (RO)

The RO provides leadership and technical direction in administering the State and local coverage program within the region, consistent with established policy. Within the RO, the Assistant Regional Commissioner (ARC) has responsibility for State and local coverage activities within the region. The RO:

- Interprets, reviews, processes and executes Section 218 Agreements and modifications;
- Reviews supporting documentation from States to remove legally dissolved entities from coverage under Section 218 Agreements;
- Reviews and makes coverage determinations consistent with established policy;
- Provides guidance and advice to States on proposed legislation that may have impact on the State's Section 218 Agreement;
- Interprets and advises States on established SSA policies and procedures;
- Refers to Central Office issues for which no policy has been established or present policy may require a change;
- Maintains file of original agreements and modifications;
- Responds to inquiries concerning magnetic media reporting, electronic filing, and paper reporting of wages; and
- Advises State Social Security Administrators and the Internal Revenue Service regarding Social Security and Medicare issues.

C. REGIONAL CHIEF COUNSEL

The Regional Chief Counsel's office reviews Section 218 Agreements, modifications and legal dissolutions for legal form and substance and provides legal opinions, advice and legal clearance. This office also provides legal interpretations on Federal and State laws and advises SSA when to obtain an Attorney General opinion.

D. SSA CENTRAL OFFICE

1. Office of Income Security Programs (OISP)

OISP is primarily responsible for administering the State and local coverage program under the Act. Organizationally, OISP is located under the Deputy Commissioner for Disability and Income Security Programs. OISP plans, develops, evaluates, and issues operational policies and procedures concerning coverage and wage questions related to Sections 210 and 218 of

the Social Security Act. As lead component for the State and local coverage program, OISP:

- Interprets laws and regulations relating to state and local coverage and wages;
- Coordinates national coverage and wage policy with the Internal Revenue Service and other Federal and state agencies;
- Coordinates coverage and wages issues for which no policy has been established or present policy may require a change that may have national impact;
- Issues policies and develops procedures and instructions on coverage, wages, and reporting;
- Administers the policy for decisions involving pre-1987 reporting and wage corrections; and
- Maintains the SSA website for *State and Local Government Employers* (SLGE); and
- Maintains the SLCH for SSA and the State Social Security Administrators.

2. Office of Central Operations (OCO)

OCO processes wage and correction reports and reconciles Annual Wage Reports with IRS Form 941 tax returns and corresponds with employers showing discrepancies.

3. Office of Communications (OCOMM)

OCOMM is the SSA component responsible for SSA's national public information and public affairs (PI/PA) programs. Public affairs specialists in each region speak at seminars to discuss the Social Security and Medicare program and its benefits.

4. Office of Legislation and Congressional Affairs (OLCA)

OLCA monitors and advises SSA officials on legislation pending in Congress and on legislative activity including those related to State and local coverage issues. OLCA also prepares testimony and background material for use by SSA officials for congressional hearings and other contacts with the Congress.

10001.150 Communications Between the States and SSA

States are expected to work with the PSSO on State and local coverage and reporting issues. However, in some cases, a State may determine assistance from the RO is necessary. In these situations, it is appropriate for the State to communicate directly with the RO.